

Social responsibility review

“Committed to our employees,
the **community** and the environment”

Introduction

GKN's strategy is based on the delivery of outstanding products and services to customers to create long-term value for institutions and individuals who invest their wealth in the Group. Ultimately, GKN is judged on its ability to deliver outstanding commercial results, but other criteria are also used to define its performance. They include:

- active concern for the health, safety and welfare of employees
- active contribution to the communities in which GKN operates
- active management of the environmental impact of operations

These issues are deeply embedded in the values which have guided GKN during the past 100 years.

GKN's values

'In our mission to deliver outstanding returns to our shareholders, we at GKN are guided in our global business operations by our commitment to certain fundamental and enduring values.

1. Customers and quality

- To provide excellent and continuously improving products and services to exceed our customers' expectations.

- To be the best in class in terms of value through quality, technology, speed, performance and innovation.
- To treat our suppliers fairly as an integral part of our total capability to serve our customers.

2. Entrepreneurship and innovation

- To foster entrepreneurship.
- To create growth and make profit by managing risk, being innovative and using initiative.
- To move with speed in all our business processes.

3. People

- To inspire outstanding performance from teams and individuals and to recognise and appropriately reward achievement.
- To encourage, train and help our employees to develop their full capabilities.
- To foster teamwork and individual achievement within a culture of empowerment and accountability.
- To share knowledge and best practice across our companies to stimulate the creation of new business opportunities.
- To provide equal opportunity irrespective of sex, sexual orientation, disability, religion or ethnic origin.
- To provide a safe working environment.

4. Community, environment and business ethics

- To act with integrity at all times.
- To comply with the regulatory framework applicable wherever we operate.
- To meet standards of good corporate governance.
- To play our part in safeguarding the environment.
- To contribute positively to the communities in which we operate.'

How GKN manages health and safety

Management of health and safety rests with line managers, supported by functional specialists including the Head of Loss Prevention, the Group Safety Adviser and the Group Medical Adviser. Executive Directors are responsible to the Board of GKN plc for the health and safety performance of their operations.

The Human Resources Director has overall responsibility for the Group's health and safety programme. Businesses submit reports on health and safety performance every six months. Feedback allows them to benchmark performance and identify good practice. Performance is reported to the Board annually and to the Executive Committee of the Board every six months. Significant health and safety

Chart 1 **Accident frequency rate (AFR)**
per 1000 employees

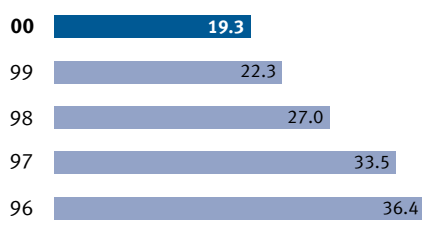
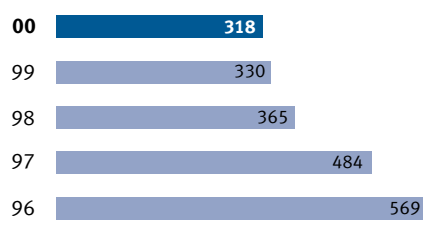


Chart 2 **Accident severity rate (ASR)**
per 1000 employees



incidents are reported to executive Directors within 24 hours and to the next meeting of the Executive Committee.

Where performance does not meet acceptable standards, business unit managers have to present improvement plans to the Committee. To promote safety awareness, GKN runs a Safety Award Scheme. The winner of the 2000 Chief Executive's Safety Shield was the Emporium sinter metals facility in the US. This plant demonstrated a high level of commitment to establishing a strong safety culture, which engages all employees in achieving significant improvements in safety performance.

GKN continually benchmarks itself against other leading companies. It is a member of the Safety Health and Environment Intra Industry Benchmarking Association. This allows the Group to compare its performance in particular with other UK industrial companies.

Safety performance

Chart 1 shows the accident frequency rate (ie the number of incidents resulting in an individual being unable to work for one day or more per 1,000 employees per annum). Chart 2 shows the accident severity rate (ie the number of days lost due to accidents per 1,000 employees per annum). Over the past five years the Group has improved its performance on both measures, by 47% for AFR and 44% for ASR. This reflects increasing management attention, a proactive approach to risk reduction and

thorough investigation of accidents to prevent recurrence.

In 2000, the incidence of serious injuries, including those that involved an employee being absent from work for four weeks or more, was 2.7 per 1,000 employees – a 47% improvement over the last five years.

GKN was deeply saddened by the deaths of five people in 2000 as a result of injuries incurred while at work. Three were accidental deaths, one involving a contractor at a GKN subsidiary in Germany, one involving an employee at a joint venture company also in Germany and another involving a contractor at a joint venture site in the UK. The other deaths occurred as a result of a shooting at a GKN subsidiary in South Africa.

Occupational health

GKN's concern goes beyond the employee's physical safety and the prevention of accidents at work to focus heavily on the avoidance of work related ill health. Occupational health (OH) practitioners work closely with safety and environmental advisers to create a working environment which minimises the risk to employee health.

The performance of work equipment, chemicals and physical agents is an important consideration. Risk assessment and the formulation of safe working systems define how the job will be done without causing harm. Surveillance programmes enable the detection of any ill effects at the earliest stage so action

can be taken to prevent continuing exposure. OH issues are reviewed centrally and regularly discussed, along with safety matters, by the Executive Committee.

There is active dialogue with enforcement agencies, both in the Engineering Sector of the Health and Safety Executive and the Employment Medical Advisory Service.

Community

The Group aims to enhance the welfare of communities in which it operates through charitable donations and practical assistance. In 2000, charity and community contributions by GKN plc and its subsidiary companies totalled £1.37 million.

Each business is free to develop programmes best suited to the needs of their communities. Often, local initiatives are inspired by employees themselves and GKN takes pride in their achievements. Here are some examples:

Brazil

As part of a management leadership programme, Automotive Driveline Division (ADD) employees built a bakery for a children's home near São Paulo. The bakery will produce bread for the children and any surplus will then be sold to generate income for the home.

Germany

In 1996 Hans-Dieter Seydel, an employee of GKN Lobro in Germany, raised funds with the help of the local mayor to found Rettet Kinder-Rettet

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Leben (Save Children – Save Life). The charity helps severely ill and handicapped children and their families in a variety of ways including day care assistance and has its own therapists. It also helps finance the cost of special equipment. Hans-Dieter is supported by his colleagues and GKN Lobro.

South Africa

CHEP South Africa is sponsoring the building of extensions to a primary school in the Valley of a Thousand Hills, northwest of Durban. Intongela Primary School consisted initially of only four classrooms and was home to over 400 pupils. CHEP provided the financial aid to extend the school facilities – eg an extra 10 general classrooms, a library, a science laboratory, electrification and the provision of potable water. CHEP also provided a computer and printer for use by the teaching staff. Intake for 2000 was approximately 600 pupils.

Thailand

In Thailand employees have adopted a school in Phetchabun in the north of the country where the children need support to pay for basic essentials such as shoes and meals. Every month, money is donated by employees at GKN Driveshafts Thailand and from staff at the Asia Pacific regional office in Singapore.

UK

In the UK, GKN supports a number of education projects including Young Enterprise, the Engineering Education Scheme, Year in Industry and the West Midlands Technology Tree. The 'GKN Millennium Trust' was set up in 1995.

The income from this fund will, for the next 10 years, be used to fund a new Chair of Manufacturing Engineering at the University of Cambridge.

GKN's Evergreen Association was set up more than 25 years ago and has established GKN as a UK leader in post-retirement care. Evergreen operates through five full-time staff and has a network of 500 volunteers who visit more than 18,000 people every year.

GKN also supports the Prince's Trust which promotes skills and employment opportunities for young people. GKN has been helping young people to start up their own businesses in areas across the UK where the Group has operations.

US

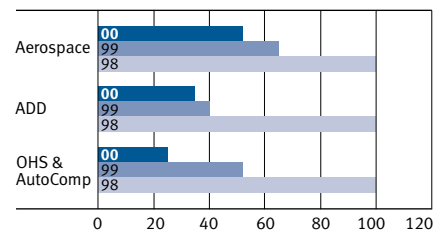
A number of US subsidiaries contribute to their local United Way/Crusade of Mercy campaign. Donations received are distributed across hundreds of health and care organisations.

How GKN manages environmental issues

The Group environmental management system (EMS) is part of the integrated loss prevention approach and is in the main based on the international EMS standard ISO 14001. The core elements of GKN's EMS are:

- Continuous improvement
- Measurement and review
- Risk analysis
- Management resources matching the risk level at each unit
- Regular auditing
- Design of products and processes

Chart 3 **Volatile organic compounds use**
index is weight (VOC)/£1000 sales with 1998 as 100



- Partnerships with suppliers and contractors
- Commitment to and development of employees
- Due diligence on acquisitions for environmental liabilities

Fourteen sites have been accredited to ISO 14001 and three of these have also been certified to the more demanding European Union standard EMAS.

Review and auditing

Group businesses make annual self-assessments of environmental risk, management and performance following agreed Group criteria.

Reports are submitted to the Group Environmental Manager and feedback allows each unit to benchmark its performance and to allocate resources to the areas where improvements are most needed.

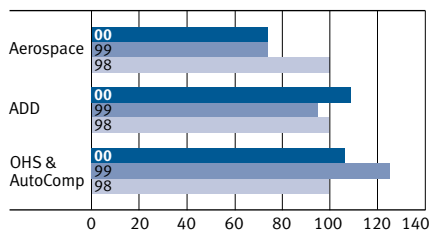
The particular areas of focus are:

- VOC (Volatile Organic Compounds) use
- Energy consumption and equivalent CO₂ emissions
- Waste generation
- Water consumption

In addition to self-assessment, GKN operates a programme of cross-company environmental auditing using trained internal auditors. The audit programme has been designed in conjunction with an external consultancy group and the target is for each major unit to have a three-day audit every three

Chart 4 **Energy consumption**

index is power usage/£1000 sales with 1998 as 100



years. This process is important for introducing GKN's EMS to newly acquired businesses.

Similar to the Safety Award is the annual Green Scheme Award, designed to stimulate and acknowledge ideas and projects that make a positive contribution to the environment. In 2000 the scheme attracted many entries which demonstrated employee involvement and real environmental improvement delivered with reduced costs.

Performance

The charts on these pages are examples of the progress GKN is making. The performance of GKN Automotive Driveline Division (ADD), OffHighway Systems and AutoComponents (OHS & AutoComp) and GKN Aerospace are used to indicate trends in certain key environmental measurement criteria. These are the businesses for which consistent, historical data currently exists.

Volatile Organic Compounds (VOC) use

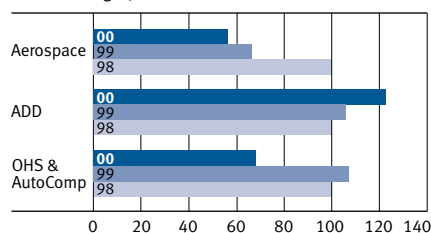
(Chart 3 above left)

The principal VOCs used in the Group are solvents and thinners associated with our painting processes. The introduction of high solids (ie low solvent) paints together with the increasing use of solvent-free powder coating processes has resulted in a steady decline in the consumption of solvents, and hence their evaporation into the atmosphere, since 1998.

The decline is particularly marked in OffHighway Systems and

Chart 5 **Waste generation**

index is weight/£1000 sales with 1998 as 100



AutoComponents which historically have been the major users of paint in the Group. Aerospace and ADD, however, have also shown significant reductions in VOC use. Consumption of chlorinated solvents, principally used to degrease components, has continued to decline as they have been increasingly replaced by alternative systems which avoid the use of these environmentally damaging compounds.

Energy consumption

(Chart 4 above)

Within Aerospace in 2000, the ratio of energy consumption to sales remained stable reflecting continued effective control of energy use.

Energy use at ADD increased somewhat in 2000 after a fall in 1999. The principal cause was the acquisition of three major operations, ATH in Brazil, Unidrive in Australia and Kaiserslautern in Germany, all of which were less energy efficient than the typical ADD subsidiary.

OffHighway Systems and AutoComponents showed a marked reduction in 2000 after a rise in 1999. Significant energy reductions were achieved at the two main production sites at Telford in the UK and Lohmar in Germany, and the other sites were able to contain consumption levels despite increasing sales.

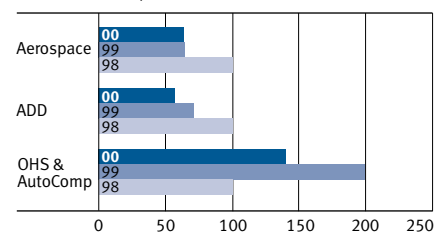
Waste generation

(Chart 5 above)

Waste generation fell significantly in 2000 in both Aerospace and OffHighway Systems and

Chart 6 **Water consumption**

index is volume/£1000 sales with 1998 as 100



AutoComponents. A major cause of the reduction was the efficient management of waste at both Telford and Yeovil in the UK, where CLEANAWAY is effectively managing the waste generated by the various businesses operating on those sites. ADD has increased its waste generation in 2000 relative to 1999. Again this is attributable to the new acquisitions.

Water consumption

(Chart 6 above)

Aerospace and ADD have reduced water consumption since 1998 and OffHighway Systems and AutoComponents showed a major fall in 2000 after a significant increase the previous year which was principally caused by the acquisition of Armstrong Wheels in the US. The reductions seen in 2000 are the result of more efficient management of water within the Group.

Employment policies

The Employment Law and Practices Policy requires every business in the Group to adopt employment policies and procedures ensuring that employees and prospective employees are given equal opportunities irrespective of sex, race, sexual orientation, disability, religion or ethnic origin. Wherever it operates, the Group complies with local employment law and practices.

All businesses must ensure that employment decisions are based on qualifications and merit. The working environment is required to be free from all forms of discrimination and from any form of conduct, physical or verbal,

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which could be considered to be harassing (including sexual harassment), coercive or disruptive. Working conditions must be safe and healthy and there are specific requirements in relation to substance abuse and dangerous weapons.

Policies are designed to encourage employees to report and discuss problems on a confidential basis and provide expeditious and confidential grievance procedures. In most US plants employee assistance programmes help employees deal with personal issues.

A key objective during recent years has been to nurture a culture which supports the Group's growth strategy and which allows employees to grow and develop their skills and abilities.

GKN's change programme is called The Way Forward. An important element of the programme has been a series of workshops involving more than 500 managers in developing new strategies, upgrading processes and finding solutions to business issues.

The workshops are continuing with the emphasis on team working and personal leadership. From time to time internal surveys are used to monitor trends in employee attitudes and perceptions on a variety of issues.

Consultation mechanisms exist across the world – eg there are works councils in most European facilities – to provide open communication between management and representatives of

union and non-unionised employees. The European Works Council, which covers all European operations, has been running for five years and has improved awareness of Group issues. GKN is also a member of the Engineering Employers Federation and Confederation of British Industry in the UK and the German Employers Federation.

GKN is committed to achieving the highest standards of performance and ensures through training and development that employees at all levels have the skills and experience to perform their roles as effectively as possible.

In the UK, GKN has been an active participant in the Investors In People (IIP) programme and over time 27 sites have gained IIP accreditation. However, given the Group's global growth and the geographic limitations of IIP, the Business Excellence Model has become the preferred route to attaining high standards. These standards include people development and involvement, continuous learning and innovation. Since its launch within the Group in 1999 an increasing number of managers are adopting the model.

Ethical standards

All GKN employees are required to maintain high standards of integrity, honesty and fair dealing. As part of the overall Group Ethical Standards policy, individual divisional and company policies require compliance with all applicable laws and regulations, and prohibit corrupt practices and the acceptance or making of bribes.

All commercial transactions must be properly recorded, and assets and confidential information must be fully protected and used only for the purpose for which they were provided.

Employees are also required to avoid conflicts of interest between their business relationships and personal activities. All employees have access to appropriate nominated executives or groups of executives for the purposes of advice and assistance and, where necessary, rulings on ethical issues which may arise. Compliance with the Employment and Ethical Standards policies is subject to formal internal audit and is reviewed annually as part of the Group's internal control procedures.

GKN is aware that there are some investment organisations and individuals concerned by a company's involvement in the defence industry. GKN's primary interest in defence equipment has been through its helicopters subsidiary. Its largest customer is the UK Ministry of Defence, which accounts for 80% of helicopter sales. All other sales are in strict accordance with UK Government export approval procedures.